

AR07

ANNUAL REPORT 1969



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Man and nature complement one another in British Columbia forests and photographer Steven C. Wilson has recorded some of the often-overlooked enchantments of the forest world in the photographs which illustrate this Report.



Summary of Significant Facts

	Year ended December 31 1969*	Year ended December 31 1968*
EARNINGS		
Income		
Sales of products and services	\$638,410,876	\$578,682,162
Other income	6,055,903	5,808,444
Total income	<u>\$644,466,779</u>	<u>\$584,490,606</u>
Earnings before income taxes and minority interests	\$ 91,089,308	\$ 77,898,823
Net earnings after income taxes and minority interests		
Amount	\$ 42,550,721	\$ 38,799,447
Per share	\$ 2.04	\$ 1.86
Charge for		
Depreciation	\$ 32,843,569	\$ 28,390,560
Depletion	7,918,107	5,398,421
Amortization of logging roads	6,284,897	5,097,361
	<u>\$ 47,046,573</u>	<u>\$ 38,886,342</u>
Earnings retained in business at end of year	\$215,253,701	\$193,651,468
BASIC CASH FLOW		
Amount	\$ 96,321,970	\$ 80,388,185
Per share	\$ 4.62	\$ 3.85
CAPITAL EXPENDITURES	\$105,092,056	\$ 77,609,013
PERCENTAGE OF LONG TERM DEBT TO TOTAL CAPITAL EMPLOYED (including deferred tax)		
	37.0	37.1
DIVIDENDS		
Cash — Ordinary shares		
Amount	\$ 20,870,599	\$ 20,856,255
Per share	\$ 1.00	\$ 1.00
Cash — Preference shares		
Amount	\$ 77,889	\$ 77,889
Per share	\$.03	\$.03
EMPLOYEES		
Wages, salaries and employee benefits	\$167,928,944	\$151,115,715
Number at end of year	18,632	18,017
SHAREHOLDERS		
Number at end of year**	22,282	23,751

*Statistics and charts throughout this report do not reflect the consolidation of overseas subsidiaries other than for equity in net earnings (see Note 1 to Financial Statements).

**Excluding holders of share warrants.

Certain 1968 figures have been restated for comparison with 1969.







Directors' Report to the Shareholders

New records were set in sales in 1969 but the Company's net profit, though exceeding slightly the previous record set in 1966, was less than what might have been expected in view of the vigorous programme of expansion undertaken within the past few years. Failure to achieve results considerably higher than in any previous year was due to causes beyond the Company's control.

Early in the year, unprecedented winter weather closed down almost all logging activity and seriously hampered converting operations in the mills. In the spring, lumber prices in the United States collapsed with a depressing effect on earnings in the latter half of the year when the market stabilized, but at a low level. Then, towards the end of the year, a strike of longshoremen halted water-borne shipments from British Columbia ports for more than six weeks. A similar dock strike earlier in the year on the east coast prevented delivery to customers in the United States. Strikes such as these have a dampening effect on Company profits and seriously damage the economy. Unfortunately there is a lack of machinery to prevent such disruptions which are equally harmful to employers, employees and to the public generally.

In the light of these handicaps the Company's performance may be regarded as reasonably good. Net earnings rose from \$38,799,447 in 1968 (\$1.86 per share) to \$42,550,721 (\$2.04 per share). Sales* and other income established a new record and at \$644,466,779 were up by \$59,976,173 or 10.3% over the 1968 figure of \$584,490,606. The basic cash flow was up by 19.8% from \$80,388,185** (\$3.85 per share) to \$96,321,970 (\$4.62 per share).

The Company, like any other in the resource industry, depends on the availability of raw material which, in the case of MacMillan Bloedel, is logs. To maintain its operations in British Columbia the Company required 360 million cubic feet (2,018 MM FBM) of logs in 1969. Net outside purchases of logs amounted to 25 million cubic feet (140 MM FBM) and production from Company lands came to 335 million cubic feet (1,878 MM FBM). In achieving this production the operations of the managed areas were maintained on a sustained yield basis.

In order to supply the raw material requirements of the plants in British Columbia, the Company operates on a sustained yield basis, four Tree Farm Licences and one Tree Farm, comprising a total of 3,368,000 acres.

*Not including sales of subsidiaries in the United Kingdom but including sales to them.

**Restated for comparison with 1969 to reflect minority shareholders' interests.

The sustained yield is supplemented by logging production from 434,000 acres of the Company's unregulated holdings. Of the total woodlands held in British Columbia 16.9% are owned in fee simple and the remainder is held under licence or as Crown timber managed by the Company.

In Alabama 376,000 acres are controlled, out of which 24% is held in fee simple and long term cutting rights are held over the remainder. In Saskatchewan the Company holds cutting rights over 664,000 acres containing a forest mostly made up of aspens which were formerly regarded as weed trees but are now forming the basis for a very useful waferboard product. In New Brunswick MacMillan Rothesay Limited owns or controls 648,000 acres of forest land.

A review of each of the Company's principal areas of operation follows.

Despite the unusually severe winter conditions, the Company's twenty-one logging operations in British Columbia achieved record production over the whole year. Since 1965, as the table below indicates, the average annual rate of increase has been approximately 9% and in 1969 it was 14%.

Log Production (British Columbia)

Year	MM Cu. Ft.	MM FBM
1969	335	1,878
1968	295	1,650
1967	275	1,540
1966	273	1,536
1965	239	1,340

Logging costs, however, were high. Early in the year the Company had to log under severe snow conditions in order to maintain the supply to the mills and this increased costs considerably. In the summer, operations were further hampered by a series of illegal wildcat strikes, that is to say, work stoppages of short duration which did not receive the support or sanction of the union involved.

Other upward pressures on logging costs were increased Crown stumpage and royalties and much higher timber taxes, licences and fees. Crown stumpage is geared to log prices and those prices reached very high levels in the year. The result was that payments to the Provincial Government for stumpage, royalties, timber taxes, licences and fees rose by more than 45% as shown below.

Year	Crown Stumpage & Royalties	Timber Taxes Licences & Fees	Total
1969	\$7,144,000	\$4,066,000	\$11,210,000
1968	\$4,618,000	\$3,072,000	\$7,690,000

To combat rising costs in every area of logging operations, further steps towards mechanization were taken and a number of innovations, such as the use of mobile grapple yarding to increase productivity and reduce safety hazards, were introduced. The Company also pioneered in the area of night logging and, at three of its camps on Vancouver Island, logs felled during the day were yarded for the first time under light provided by specially rigged banks of mercury vapour flood lamps.

A further development of major importance was the first west coast installation of a dry land mechanized log sorter at the Northwest Bay Division. This system will greatly reduce sorting and booming costs and is particularly suited to high-volume, small-log operations.

New logging operations were started at Jervis and Knight Inlets on the mainland and the operations at Iron River and Eve River on Vancouver Island were considerably expanded. Combined additional volumes from these sources amounted to 30.9 million cubic feet (172.8 MM FBM) during 1969 and it is estimated they will produce 39 million cubic feet (217 MM FBM) during the current year.

Forestry

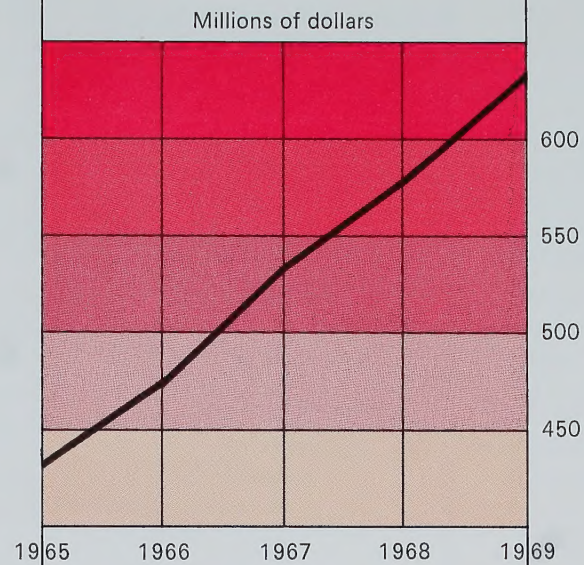
Until 1962 the forests under the Company's management were maintained by supplementing natural regeneration with planting where re-stocking had failed. Late in that year a programme of intensive forestry was initiated to increase the yield of the new forest. At about the same time utilization of the old growth forest was directed to a maximum recovery of volume in the logging process and of values in the converting process.

Now in its eighth year, intensive forestry is showing tangible results in the form of improved productivity of owned lands and the large allocation of public forests under the Company's management. Substantial acreage has been treated, resulting in increases in the permissible annual cut, which in turn have led to substantially higher forest revenues for the government and the people of British Columbia.

During 1969 planting and forestry activity would have reached record levels had it not been for the extreme winter weather. However, planting of 4.5 million trees on 13,856 acres was completed during the year and over 8,000 acres of overstocked stands were thinned for improved growth. Extensive use was made of new planting techniques which promise a higher survival rate of seedlings and an extended planting season.

The planting programme from inception to the end of 1969 has seen 65 million seedlings planted by the Company's forestry personnel.

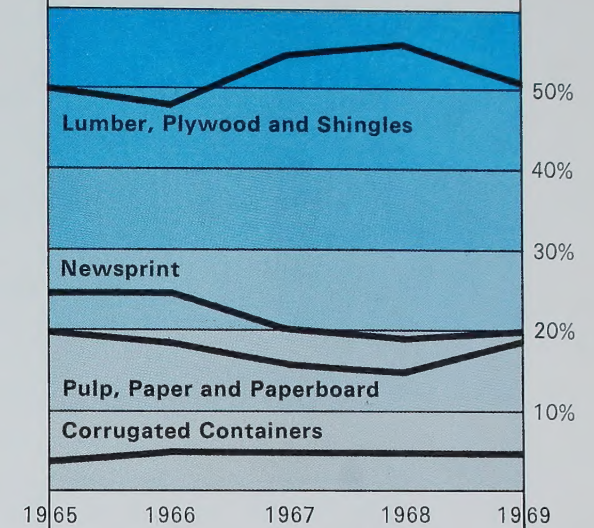
1. Sales of Products and Services



2. Sales of Products by Markets

	1969	1968
U.S.A.	42.6%	41.5%
B.C.	8.0%	8.0%
Rest of Canada	16.4%	16.0%
U.K.	7.2%	8.0%
Japan and Orient	9.6%	11.2%
Other	16.2%	15.3%

3. Percentage Contribution to Sales by Products

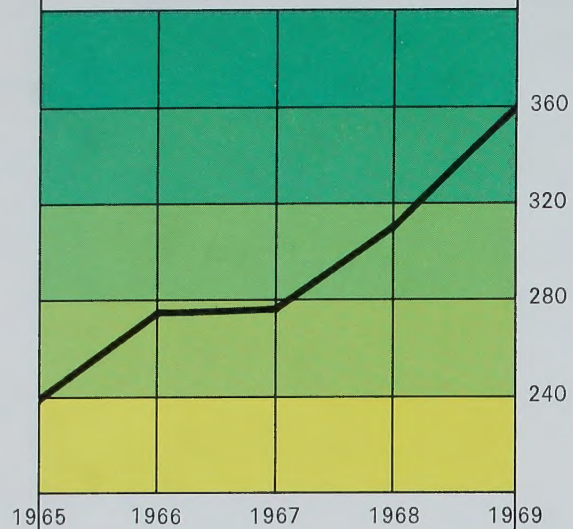


4. Distribution of Total Income

	1969	1968
Purchases of Goods, Supplies and Services	50.0%	51.5%
Wages, Salaries and Employee Benefits	26.0%	25.9%
Federal, Provincial and Municipal Direct Taxes	10.0%	9.3%
Depreciation, Depletion and Amortization	7.3%	6.7%
Dividends	3.3%	3.6%
Earnings Retained	3.4%	3.0%

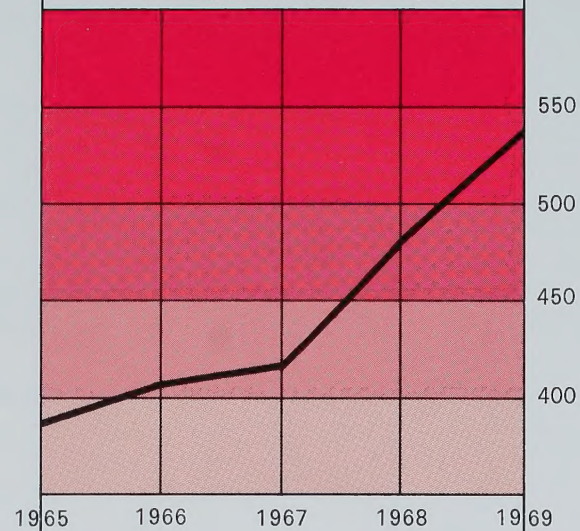
5. Logs

Production, million cubic feet



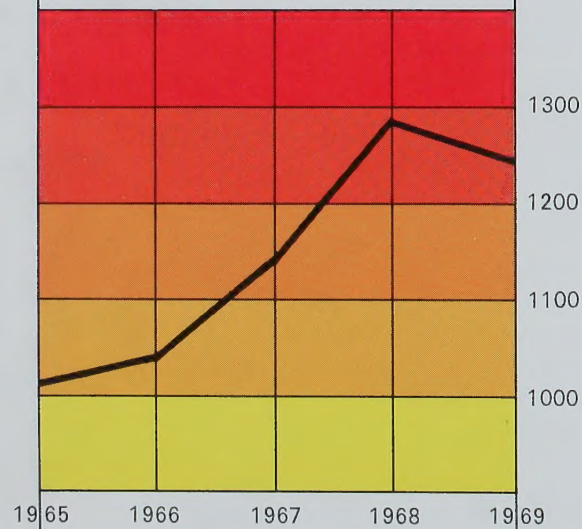
7. Plywood

Production, million square feet ($\frac{3}{8}$ "



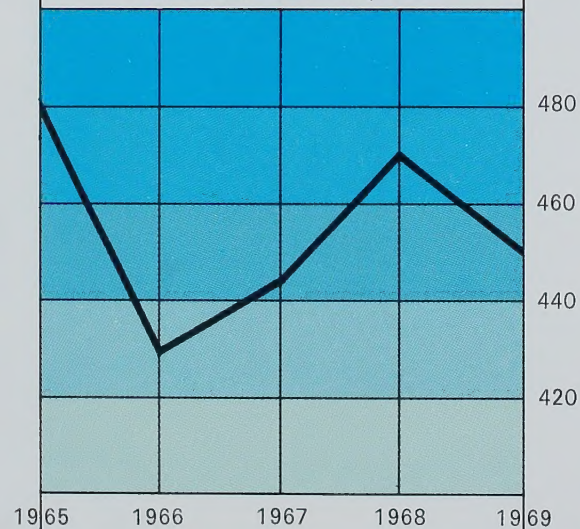
6. Lumber

Production, million board feet



8. Shingles

Production, thousand squares



Wood Products

A number of factors combined to make 1969 an extremely difficult year for the Wood Products side of the Company's operations. The strikes of longshore workers on both coasts as previously mentioned seriously reduced water-borne shipments from British Columbia, especially in the latter part of the year.

The collapse of the United States lumber market in the spring came about when eastern purchasers built up lumber inventories in anticipation of increased housing demand later in the year. This caused, first, an artificial shortage of lumber with unsupportable price levels and, second, price weakness when the heavy demand failed to materialize.

Volume of lumber shipments dropped approximately 15% in 1969 because of the foregoing factors. The combination of increased wage costs and low prices caused profit margins to shrink during the last half of the year.

Further improvements in wood recovery practices during the year helped to offset the increases in manufacturing costs. For example, technological development in the use of saws in the lumber mills has increased the lumber output and has decreased waste. Another new development was the installation in two of the Company's lumber mills of electronically-controlled memory systems forming the basis for automated lumber sorting.

Plywood shipments increased approximately 19% during the year with a large portion of the increase attributable to higher production from our Alabama operations. During the second half of the year, United States producers, faced with depressed conditions at home, made an aggressive entry into Canadian and Overseas markets. That move caused significant price reductions in all areas.

Shingle markets slumped during the last half of the

year after a strong start. Shipments were off approximately 14% and prices dropped by the year-end to mid-1968 levels which, in view of subsequent cost increases, left very little in the way of profit margins.

Demand for Aspenite panels manufactured at Hudson Bay, Saskatchewan, was very strong throughout 1969. During the year, plant capacity at Hudson Bay was nearly tripled from 62 million sq. ft. ($\frac{3}{8}$ " basis) to 166 million sq. ft. ($\frac{3}{8}$ " basis) and commercial production came on stream in January 1970. Full production is expected to be achieved early in 1971.

k3 particleboard also experienced strong demand, particularly during the first six months of 1969, and manufacturing facilities operated at capacity throughout the year. The entry of United States producers into the Canadian market created a condition of over-supply in the latter part of the year with consequent reduction in price.

Shipments of specialty boards increased over 35% in 1969 as these products, consisting of coatings and overlays applied to plywood and k3 particleboard, gained further market acceptance. The Company plans to introduce two new products during 1970. The first is an improved chalkboard which is a k3 panel specially treated to meet rigid standards for use as a blackboard in schools and the second is a k3 particleboard overlaid with vinyl which provides a wide range of decorative applications.

The graphs numbered 6 to 8 on page 8 show production volumes by product line and on page 10 there is a table giving sales of lumber, plywood and shingles by markets.

The contract under which MacMillan Bloedel Limited sells lumber, plywood and shingles produced by British Columbia Forest Products Limited continues to the satisfaction of both companies.

9. Sales of Lumber, Plywood and Shingles by Markets

	1965	1966	1967	1968	1969
U.S.A.	31%	33%	36%	41%	40%
B.C.	7%	7%	5%	5%	6%
Rest of Canada	17%	19%	17%	15%	17%
U.K.	20%	15%	14%	9%	9%
Japan and Orient	7%	10%	13%	14%	10%
Other	18%	16%	15%	16%	18%
	100%	100%	100%	100%	100%

10. Sales of Newsprint, Pulp, Kraft Paper and Paperboard and Fine Paper by Markets

	1965	1966	1967	1968	1969
U.S.A.	57%	59%	53%	50%	53%
B.C.	8%	8%	8%	8%	7%
Rest of Canada	4%	5%	4%	4%	3%
U.K.	10%	7%	9%	8%	7%
Japan and Orient	5%	8%	10%	11%	12%
Other	16%	13%	16%	19%	18%
	100%	100%	100%	100%	100%

Pulp and Paper

Gross revenues from the Company's Pulp and Paper operations increased by approximately 25% over 1968. Linerboard operations in Alabama accounted for a large part of the gain and there was in addition a production increase of 6.5% in the Company's five mills in British Columbia. Significant increases in prices resulting from much stronger market demand made a further contribution. An even larger increase in revenue would have been possible if it had not been for the longshoremen's strike.

The trends in market strength reversed the pattern of 1967 and 1968 and permitted the Company's facilities to operate at high levels during the year. This was true particularly with respect to pulp markets which showed increasing strength throughout the year but it applied also to newsprint, especially in overseas markets, and to linerboard.

During the first half of 1969 the marketing department of the Pulp and Paper Group was extensively reorganized from a product-oriented structure to a form of organization based on geographic markets. This important change will focus more effectively the efforts of the marketing organization on customer service needs and increase sensitivity to changes in demand patterns and market requirements.

The technical division intensified its efforts during the year to ensure that the highest quality of pulp and papermaking technology is made available to operating management. A major study of the quality of offset newsprint was completed and the results are currently being used to plan future production methods. Projects designed to evaluate the feasibility of computer-controlled processes on paper machines at Powell River are now being completed.

At Powell River, construction has now been completed on the first Verti-Forma paper machine in the west. The device which, as its name suggests, is a vertical rather than a horizontal wire installation, gives the same finish to both sides of the paper sheet as well as providing greater flexibility in production.

The over-supply of newsprint which has existed in recent years was less pronounced in the first quarter and demand strengthened during the balance of the year. In the western region of the United States and Canada shipments were maintained at very satisfactory levels and substantial gains were made in the development of overseas markets. The Company is now shipping nearly 25% of its newsprint production to offshore markets, compared with 17% in 1968. Further increases in sales to these markets are expected in 1970.

The Company's newsprint capacity was substantially increased through the formation of MacMillan Rothesay

Limited — a joint venture with Feldmuhle A.G., the largest manufacturer of paper and board in the European Common Market. MacMillan Bloedel owns 51% of the new company which purchased the newsprint mill of the Rothesay Paper Corporation at Saint John, New Brunswick. Construction of a second newsprint machine, scheduled to start up in the first quarter of 1971, is progressing as planned and will double capacity to 360,000 tons per year. The existing machine was installed in 1965. These facilities are under the management of the Pulp and Paper Group. They will add flexibility to the Company's overseas marketing efforts as well as creating opportunities in the newsprint market in eastern North America.

Market demand for kraft pulp improved rapidly during the year and was exceptionally strong by the year-end. All pulp mills were producing at full capacity during the last half of the year and are expected to continue to do so in 1970.

Production of semi-bleached kraft at the new Powell River mill increased rapidly to full capacity rates and the mill ran well throughout the year. New production records were set in October and November and some further increases in production are expected in 1970 and this will help to meet the strong demand for market pulp.

The strength in market pulp demand has enabled the Company to complete firm long-term contracts with a number of paper producers in Europe, Japan, Australia and the U.S.A. These arrangements will provide the basis for greater stability in pulp sales and earnings for a number of years to come. They will also improve the Company's understanding of changes taking place in key end-use markets since these long-term contracts provide the foundation for closer working relationships with major paper producers and converters.

Demand for kraft paper and paperboard improved substantially from low levels at the beginning of the year and, in the case of paperboard, outside purchases were necessary to meet customers' requirements at year-end.

At the end of the year negotiations were in progress for the sale of two machines and their related equipment and buildings at the Burnaby Paperboard Division to Belkin Packaging Ltd. One of the machines produces roofing felts and the other specialty papers and boards. Negotiations have since been completed and the transaction is to be closed in the early spring. The proceeds of the sale will be \$9,250,000, subject to minor adjustments.

While these machines have been operated profitably by the Company since 1960 it would have been necessary to embark on a substantial programme of capital expenditures to keep them competitive and

it appeared advisable to dispose of them on what are considered to be favourable terms.

Production of fine paper increased in 1969 by approximately 1,000 tons over the preceding year. New production records were set as a result of improved machine scheduling and other increases in operating efficiency. A reduction in tariffs made it necessary to reduce prices in some instances to meet U.S. competition, but improved opportunities to sell in the northwestern U.S. helped to offset those reductions. In the year ahead the Company expects to make further penetration into the U.S. market for fine paper.

The graphs numbered 11 to 14 on page 13 show production from the Company's pulp and paper mills and the table on page 10 shows the sales of newsprint, pulp, kraft paper and paperboard and fine paper by markets.

Packaging

Sales from corrugating plants in Canada, the United Kingdom and the United States showed an increase of 11.4% over 1968. In Canada, where there are five plants, the increase was 8.6%; in the United States, where there are plants at Jersey City and Baltimore, the sales increase was 17.7%; and the five plants in England experienced an increase of 11.1%. There was also a sales increase at the folding box plant in Burnaby, British Columbia, of 14.5% but the bag plant at the same location showed a decrease of 5.5% owing to strikes in a large number of retail outlets in British Columbia.

The Company added to its product line through the acquisition of Allied Paper Products Ltd., a small western Canadian producer of notion and millinery bags.

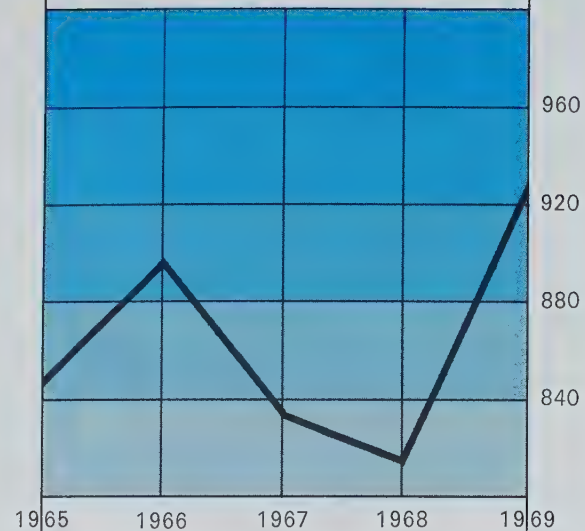
The Company's fifteen plants consumed 287,000 tons of paper and paperboard — an increase of about 6% over the previous year — and the Company's primary mills supplied 104,000 tons of this requirement.

Almost \$2.7 million was spent on the Company's packaging operations in 1969. These expenditures included renovation and expansion of the Southall plant in England to bring its capacity to 915 million square feet annually and the expansion of the plant at Weston-super-Mare, also in England, which increased its capacity to 600 million square feet per annum.

Prices generally were firm during the year and volumes were maintained despite labour disputes which resulted in the closing of the Calgary corrugating plant in August and the Edmonton corrugating plant in October. To date there has been no settlement with the union involved but nevertheless the plants have been re-opened and are operating on the basis of full production. During the closures most Alberta customers were supplied by the Company's Winnipeg and Regina plants.

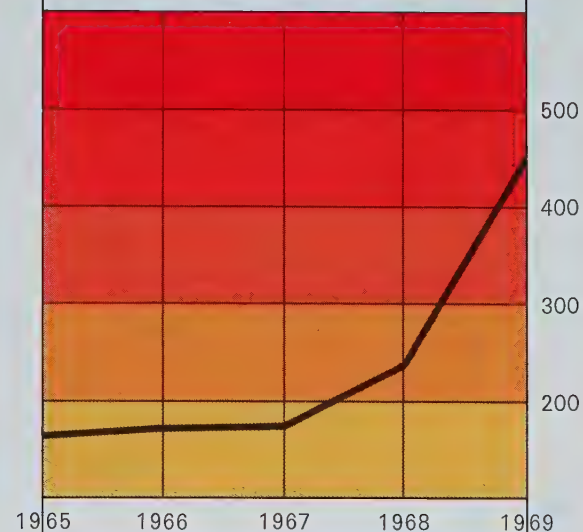
11. Newsprint

Production, thousand short tons



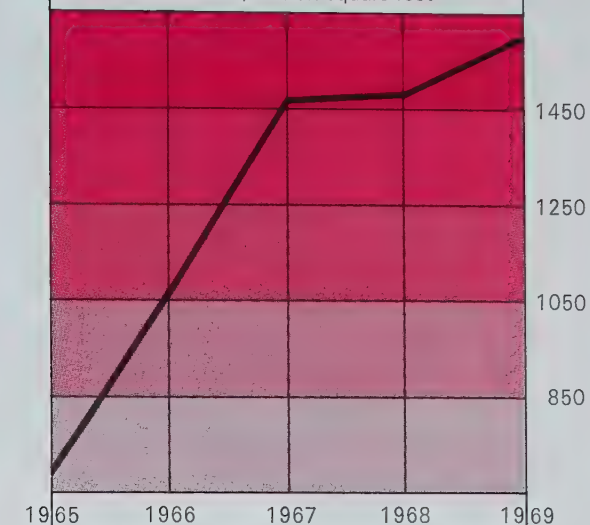
13. Kraft Paper and Paperboard

Production, thousand short tons



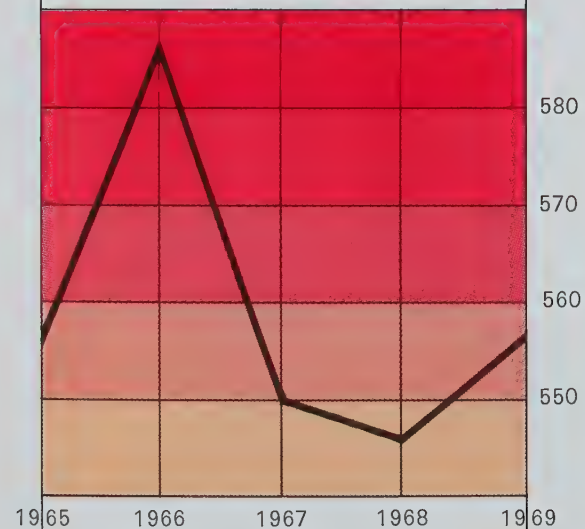
15. Corrugated Containers

Production, million square feet



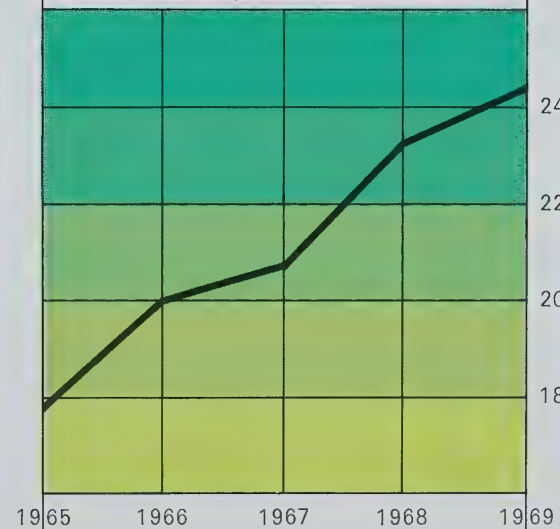
12. Pulp

Production, thousand short tons



14. Fine Paper

Production, thousand short tons



16. Distribution of Shares and Shareholders

As at February 13, 1970

	Shares	Shareholders
Canada	15,903,166	20,495
United States	4,273,307	1,208
United Kingdom	65,412	108
Other	115,189	248
	20,357,074	22,059
Share Warrants	519,091	
	20,876,165	

In regard to share warrants, it is estimated that 75% are held in the U.S.A. and 25% in Canada. The number of warrant holders is not known.

Research and Development

While there have been some unavoidable delays in bringing the new high yield kraft pilot plant to production, it is fully expected that the plant will be in operation by mid-summer. Another area of concentration in pulp and paper research and development is in the improvement of the properties of regular and offset newsprint. These projects are being undertaken in close co-operation with the Pulp and Paper Group's technical division.

A number of projects are under way in connection with process improvement and cost reduction in the manufacture of particleboard and Aspenite and work is proceeding on a new method of drying lumber by the use of high frequency energy.

Industrial Relations

During 1969 seven collective agreements in Canada and the United States were negotiated without interruption of work. Major negotiations with unions representing the bulk of the working force in British Columbia will take place this year. Present indications are that these negotiations will be difficult and protracted.

The Company's enviable safety record was maintained and eight divisions operated during the year without a time-lost injury.

Employees who have attained membership in the Company's Twenty-five Year Club now number 1,968, of whom 1,091 are still actively employed. 105 employees completed twenty-five years' service in 1969. The Company is extremely fortunate in the substantial contribution these employees are making to the success of its operations.

International Operations

The Company's major investments outside Canada are in Alabama, the United Kingdom and Europe. Its sales organizations in the Far East are, in co-operation with senior planning personnel in Vancouver, undertaking feasibility studies in several parts of that area and some of these may lead to other substantial direct investments.

In Alabama, the linerboard mill in which the Company's interest is 60% (the United Fruit Company — 40%) reached capacity in its first full year of operation and produced 282,000 tons of saleable product. The

wood products complex, 100% owned by MacMillan Bloedel Limited, produced 101.5 million square feet on a $\frac{3}{8}$ " basis of sheathing grade plywood and 47.9 million FBM of standard 2" x 4" lumber. Woodlands operations were expanded and 376,000 acres are now held in fee simple or under lease.

While operations in Alabama, apart from marketing, are carried on outside the Company's Pulp and Paper and Wood Products Group management structures, the wholly-owned packaging subsidiary in the United Kingdom, MacMillan Bloedel Containers Limited, is regarded as an integral part of the Packaging Group. Its operations during 1969 returned a satisfactory profit and plans are in hand for future major additions to capacity.

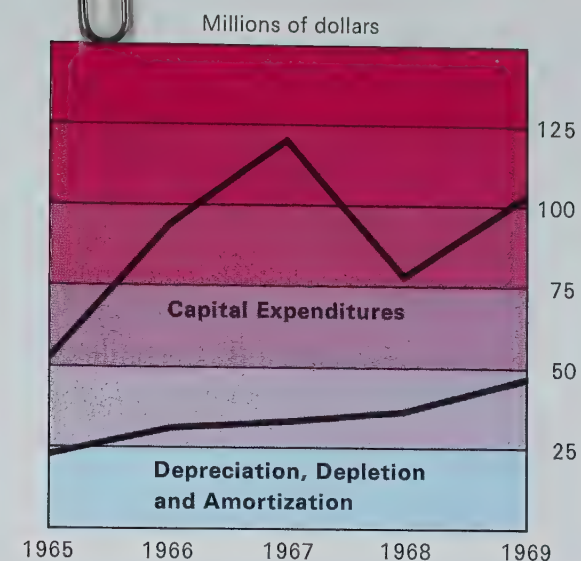
On the Continent, Koninklijke Nederlandsche Papierfabriek (KNP), in which MacMillan Bloedel Limited has a 36% interest, had a successful year despite occasional softness in the European fine paper market. Earnings are expected to show a significant increase over 1968. Celupal, S.A., on the other hand, had a difficult start-up year due, primarily, to weak domestic markets for fine paper in Spain. KNP and MacMillan Bloedel each hold 37½% of the outstanding equity in Celupal, S.A. and the balance is in the hands of Spanish associates.

As well as these investments in manufacturing operations abroad, the Company has established sales subsidiaries in several overseas markets. In the United Kingdom all pulp and linerboard sales are handled through a wholly-owned subsidiary, MacMillan Bloedel Pulp and Paper Sales Limited. The bulk handling facilities at Newport and Tilbury and the sales of lumber in the United Kingdom are managed by MacMillan Bloedel Meyer Limited, ownership of which is shared with Montague L. Meyer Limited, an organization with which the Company has had a long association.

In the Far East a close working relationship is maintained with Jardine, Matheson & Co. Ltd. through a jointly-owned enterprise, MacMillan Jardine Limited, established in 1963. MacMillan Jardine Limited is responsible for the sale of wood products and pulp in many far eastern countries and its personnel are actively engaged in seeking out direct investment opportunities in that area.

In Australia, MacMillan Bloedel Pty. Limited, a wholly-owned subsidiary, handles the sale of the Company's wood products, pulp and newsprint.

17. Capital Expenditures



Capital Expenditures

The total expenditures for the year were \$105,092,056, grouped under the following headings:

LOGGING

Equipment and other facilities, timber and roads.....	\$ 18,435,193
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WOOD PRODUCTS

Aspenite Division expansion in Saskatchewan, timber and land acquisitions in Alabama and general improvements to operations.....	24,077,158
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PULP AND PAPER

Acquisition and expansion of MacMillan Rothesay paper mill in New Brunswick with related timber, land and roads, modification of paper machine at Powell River and general improvements to operations.	58,808,384
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PACKAGING

General improvements to operations..	1,260,219
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OTHER

Head Office building additions and furnishings, research facilities and sundry additions.....	2,511,102
	<u>\$105,092,056</u>

Finance

The notes to the consolidated financial statements, appearing on pages 36 to 38 inclusive, deal with the main items of interest in the balance sheet. The following comments are intended to provide additional background and refer particularly to some of the more significant changes which took place during the year.

Although there was a reduction in the ratio of current assets to current liabilities, from 2.3:1 in 1968 to 1.9:1 in 1969, the reduction in working capital was relatively modest and, at \$97,431,321, the figure was down by \$1,118,628. Cash and short-term investments showed a decrease of \$9,208,966 to \$2,053,279.

Receivables and inventories showed substantial increases, not all of which were due to the higher volume of business transacted during the year. Receivables which were up by \$11,509,233 to \$91,662,100 were unusually high because of the exceptionally heavy sales volume achieved during November and December following the longshoremen's strike. In addition, newsprint shipments were at abnormally high levels late in the year in order to meet increased demand in the United States market. Supplies were built up by customers in anticipation of the newsprint price increase announced in October to take effect January 1, 1970.

The impact of the longshore strike on inventory levels was even more noticeable and, at \$104,718,229, they were \$25,879,932 above the previous year-end figure. The increase in the inventory of logs in the water was, to some degree, deliberate in order to provide for requirements of the converting mills over the winter months. These inventories, nevertheless, along with higher quantities of lumber at the mills, were a direct reflection of the Company's inability to ship because of the work stoppage on the docks.

The additional working capital requirements associated with these increases were met from the Company's cash resources and by temporary increases in loans under our existing bank lines of credit.

As indicated in Note 1 to the financial statements, the total assets and liabilities of MacMillan Rothesay Limited have been fully consolidated with appropriate recognition of the minority interest. This consolidation accounts for an increase of \$43,662,330 in fixed assets under the heading of Property, Plant and Equipment and the addition of \$23,375,776 to our long-term debt. The increase of \$10,261,277 (net) in the liability represented by minority interests also arises mainly from this consolidation.

Apart from the expenditure associated with the

Pollution Abatement

Rothesay transaction, capital outlays on property, plant and equipment totalled \$61,429,726, a decrease of \$16,179,287 from 1968. These outlays consisted primarily of expenditures in connection with existing facilities and logging roads and included two major items — the rebuilding of the No. 6 machine at Powell River and timber acquisitions in Alabama. Amounts expended during the year on these two projects were \$9,508,808 and \$14,283,640 respectively.

The decrease in capital expenditures was in keeping with the overall policy of restraint in this area. The policy is consistent with national objectives to combat inflation and is being maintained.

An important Company activity during the year concerned the very pressing problem of pollution abatement which is a high-priority objective of every group and division of the Company. Capital expenditures towards this end continue at a high level and will have reached, by the end of 1970, an overall total of some \$19 million for all mills. Most of this amount will have been spent in the last five years.

At Port Alberni, for the first time in the pulp and paper industry in Canada and the third such instance in the North American industry, secondary precipitator treatment to reduce particulate matter which escapes into the air is being installed.

In the field of water pollution control, the Company is now installing at Port Alberni a \$3.5 million secondary treatment plant that will treat 20 million gallons of effluent a day as it emerges from the mill. It is one of the largest pollution control projects ever undertaken at a British Columbia industrial plant.

These large expenditures have placed the Company in a relatively satisfactory position with respect to pollution standards set by government authorities. However, the Company is convinced that industry generally must assume a position of leadership in the fight against pollution of all kinds, not only industrial pollution. As a corporate citizen with an interest in the environment equal to that of any other citizen, MacMillan Bloedel Limited accepts its full responsibilities in the search for solutions to a wide range of pollution problems, in addition to those at the Company's own operations.

General

- ✓ The outlook for the balance of the year is a mixed one and is dominated by two main concerns: the success or otherwise of the efforts to combat inflationary pressures and the results of the forthcoming labour

negotiations with the industry's major unions. On the one hand the Federal Government through the Prices and Incomes Commission is urgently requesting industry to refrain from increasing prices, and the Company, together with the rest of Canadian industry, has indicated support for this policy. On the other hand the forest industry is now being faced with demands by the unions for increases in wages which are unprecedented in size. To date the unions have shown no inclination to respond to the Government's plea for wage restraint.

There is no doubt that heavy costs involved in wage increases are the strongest contributory factor to inflation today. Extravagant increases in wages must inevitably exert upward pressures on prices and the cost of living, so that in the result the wage earner receives no benefit and the economy suffers damage as a whole.

Any forecast as to the coming year must be predicated upon the assumption that wisdom and restraint will be exercised in relations between management, labour and government.

As previously stated, lumber and plywood markets reached very low levels during the latter half of 1969 but they appear to have stabilized to some extent and while continuance of anti-inflationary measures in North America will have their effect, there is a pent-up demand for housing which will have to be met in the not too distant future. Recently there have been indications of some lessening in monetary restraints, especially in relation to housing, and if this takes place there may be improved demand for both lumber and plywood in the second half of 1970 in North America. In other world markets requirements appear to be steady but competitive supply will keep prices from increasing to any great extent.

Pulp markets are strong and some degree of upward pressure on prices is expected to continue during the balance of the year. Newsprint demand in overseas markets continues to be firm but the economic slow-down in North America to which retail sales and advertising volume are so sensitive, appears to be having its effect on the requirements of publishers. Linerboard is another product which responds very quickly to general economic conditions but the position of the Company is protected to a large extent on a contractual basis and little difficulty is foreseen in maintaining volume. Packaging sales will likely remain fairly constant.

On the whole, in the absence of any long work stoppages, 1970 should be a reasonably good year.

More than 50 years ago H. R. MacMillan was joined by W. J. VanDusen in a timber marketing venture which

was one of the parents of the present Company. The world-wide marketing organization which they developed in the H. R. MacMillan Export Company Limited in the years following the first World War formed a basis from which MacMillan Bloedel's international interests grew and both men have made great contributions to the success of the Company. After having served for many years as Directors of the Company Mr. MacMillan and Mr. VanDusen have now asked that their names not be placed in nomination as members of the Board for the ensuing year. However, in recognition of their long association with the Company and the influence which they have had on the development of the forest industry, the Board has nominated them to the office of Honorary Directors and they have accepted the nomination.

Two other highly valued members of the Board are likewise retiring this year. Mr. F. H. Brown became a Director of the Company in 1960 following a long association with one of the predecessor companies, Powell River Company Limited. Since then he has served most effectively and has been especially helpful in the area of finance. He has been a member of the Executive Committee of the Board of the present Company since 1961. Mr. E. G. Shorter is leaving after a career devoted almost entirely to MacMillan Bloedel Limited and H. R. MacMillan Export Company Limited. He joined H. R. MacMillan Export Company Limited in 1936 and became a Director in 1956. After serving as its President, he became Vice-Chairman of the Board of MacMillan Bloedel Limited in 1963. The Company will continue to have the benefit of his experience as a consultant.

Once again I am pleased, on behalf of the Board of Directors, to express appreciation for the efforts of all employees who have contributed to the success of the Company's operations.



Chairman and Chief Executive Officer

Vancouver, Canada
March 9, 1970

Historical Review*

Operating

Production

Logs	(M Cu. Ft.)	359,924
Lumber	(M FBM)	1,244,260
Plywood	(M Sq. Ft. $\frac{3}{8}$ ")	534,950
Shingles	(Squares)	449,837
Particleboards	(M Sq. Ft. $\frac{3}{8}$ ")	133,154
Specialty boards	(M Sq. Ft.)	22,668
Newsprint	(Short tons)	927,868
Pulp	(Short tons)	556,468
Kraft paper and paperboard	(Short tons)	455,654
Fine paper	(Short tons)	24,331
Corrugated containers	(M Sq. Ft.)	1,607,996
Wages, salaries and employee benefits		\$167,928,944
Number of employees at end of year		18,632

1969

Financial

Income, all sources		\$644,466,779
Net earnings after income taxes and minority interests		
Amount		\$ 42,550,721
Per share		\$ 2.04
Depreciation, depletion and amortization		\$ 47,046,573
Retained earnings for the year		\$ 21,602,233
Basic cash flow		
Amount		\$ 96,321,970
Per share		\$ 4.62
Capital expenditures		\$105,092,056
Percentage of long term debt to total capital employed (including deferred tax)		37.0
Dividends		
Cash — Ordinary shares		
Amount		\$ 20,870,599
Per share		\$ 1.00
Cash — Preference shares		
Amount		\$ 77,889
Per share		\$.03
Stock		
Amount		—
Per share		—
Number of shareholders at end of year**		22,282

*Statistics do not reflect the consolidation of overseas subsidiaries other than for equity in net earnings (see Note 1 to Financial Statements).

**Excluding holders of share warrants.

***Includes tonnage purchased during strike.

Certain figures have been restated for comparison with 1969.

1968	1967	1966	1965	1964	1963	1962	1961	1960
310,003	274,677	273,425	238,900	215,512	206,206	194,519	171,715	170,603
1,279,284	1,139,437	1,037,806	1,014,757	915,206	804,102	744,024	707,792	699,463
477,728	416,664	406,271	386,457	374,036	372,054	356,974	347,523	299,335
469,598	443,816	430,852	479,983	452,002	449,323	385,423	413,565	385,841
81,992	89,905	68,557	38,016	—	—	—	—	—
18,235	12,950	7,517	1,580	—	—	—	—	—
813,748	832,361	896,361	843,968	790,850***	689,296	681,448	643,576	656,318
546,761	550,245	586,867	556,135	483,773	368,152	343,982	333,932	327,550
239,285	178,382	174,462	173,018	159,683***	159,635	134,825	120,971	115,592
23,292	20,801	20,043	17,868	14,482	12,089	8,429	5,194	1,986
1,473,760	1,454,032	1,057,038	699,881	679,291	665,240	669,523	606,697	624,897
\$151,115,715	\$132,698,261	\$116,772,119	\$101,485,089	\$ 89,500,618	\$ 81,724,493	\$ 77,526,441	\$ 74,865,659	\$ 74,369,957
18,017	16,549	15,959	14,930	14,360	13,430	13,074	13,282	13,108
\$584,490,606	\$540,584,464	\$478,954,359	\$437,182,442	\$413,308,840	\$349,368,343	\$330,669,043	\$315,323,217	\$305,291,437
\$ 38,799,447	\$ 36,189,166	\$ 42,460,618	\$ 40,594,282	\$ 41,440,597	\$ 36,660,068	\$ 36,081,809	\$ 27,395,968	\$ 24,575,651
\$ 1.86	\$ 1.74	\$ 2.04	\$ 1.95	\$ 1.99	\$ 1.76	\$ 1.73	\$ 1.32	\$ 1.18
\$ 38,886,342	\$ 31,101,353	\$ 28,340,222	\$ 23,976,158	\$ 29,007,429	\$ 22,486,653	\$ 21,514,897	\$ 21,903,353	\$ 22,354,087
\$ 17,865,303	\$ 11,083,772	\$ 16,343,477	\$ 15,551,676	\$ 16,425,091	\$ 15,828,813	\$ 20,462,118	\$ 11,776,277	\$ 8,959,663
\$ 80,388,185	\$ 74,850,159	\$ 90,988,165	\$ 76,778,597	\$ 76,009,563	\$ 65,652,332	\$ 59,742,099	\$ 49,632,603	\$ 47,001,296
\$ 3.85	\$ 3.59	\$ 4.36	\$ 3.68	\$ 3.65	\$ 3.15	\$ 2.87	\$ 2.38	\$ 2.26
\$ 77,609,013	\$119,863,008	\$ 90,418,360	\$ 52,324,668	\$ 78,439,712	\$ 47,119,433	\$ 37,608,336	\$ 18,613,028	\$ 16,781,622
37.1	36.7	35.0	16.3	19.3	10.1	11.4	13.2	14.4
\$ 20,856,255	\$ 25,027,505	\$ 20,856,255	\$ 20,848,755	\$ 20,846,255	\$ 20,831,255	\$ 15,619,691	\$ 15,619,691	\$ 15,615,988
\$ 1.00	\$ 1.20	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$.75	\$.75	\$.75
\$ 77,889	\$ 77,889	\$ 46,822	\$ 24,600	—	—	—	—	—
\$.03	\$.03	\$.03	\$.03	—	—	—	—	—
—	—	\$ 5,214,064	\$ 4,169,251	\$ 4,169,251	—	—	—	—
—	—	\$.25	\$.20	\$.20	—	—	—	—
23,751	24,671	24,415	23,135	20,597	18,909	18,962	18,606	16,728



WHERE THE TREE DWELLS

The coastal fog belt of British Columbia, on the western edge of the Canadian cordillera, nourishes the country's richest stand of coniferous tree species and a teeming biological community at its feet. The sea pierces the mountainous coast in fjords that run inland for distances up to 50 or 75 miles so that the forests are influenced by the coastal climate. Mild ocean vapours rise as fog and then are cooled as they move up the mountain slopes. As they condense they create abundant rain which measures well above 100 inches a year in some coastal regions, creating nearly perfect conditions for the growth of spruce, hemlock, Douglas fir, and western red cedar. Some trees reach heights of 200 feet and diameters of eight feet or more. It is in such a setting that MacMillan Bloedel was founded and where its growth was generated. It now has reached the stature of a multi-national company but its principal resource base, and its origins, remain in British Columbia's timbered mountains, along the mainland inlets and on the coastal islands as far north as the Queen Charlottes. The people who work in these forests, or live near them, may not often express their awareness of the beauty that surrounds them, but they know it well and feel a kinship with it.

On the forest floor, growing out of the fallen detritus, is a world of miniatures, the epiphytes: mosses, lichens and ferns which thrive in the dim light filtering through the canopy of foliage above. In this arboreal world that is home to the wood violet, the yellow monkey flower, the bracken fern and scores of mosses, nature has struck a balance which existed centuries before man arrived but which now accommodates him gracefully if he recognizes his place and keeps it.

Men who have entered the forests have been of two kinds: the callous who stripped the mountains and left them the victims of erosion and scrub, and those who have respected the natural equilibrium. Enlightened forestry is the rule in British Columbia today and the men who tend and harvest the trees are mindful of the streams which drain the mountain valleys, and of the fish which swim in them, the mallard and snipe which nest along their banks. These men foster the conditions necessary for healthy, vigorous forests, and for regeneration in much less time than in the virgin forests, but the beauty remains. The open spaces that are left in dense timber by modern methods provide new forage for herds of elk and a more hospitable home for bear, raccoon, beaver, marten and the Chickaree squirrel, the forest-edge animals.











The beauty preserved by man's regard for nature's balance is a dividend for those whose work keeps them close to the forest, and a bonus for city dwellers who occasionally explore its trails.

Forest conservation, however, means more than the protection of wild life, of beauty and of precious solitude. It applies to the protection of all life. Canada's vast forest cover influences our climate, our economy and probably even our social attitudes because we recognize our absolute dependence on a resource of nature and insist that it be renewed as it is used.

Without forests, water sluices uselessly to the sea, loaded with silt. Gradual removal of forests over many generations contributed to the dustbowl conditions of the American midwest in the thirties when dry winds swept across the plains unhindered by trees. Before it lost its trees, the Sahara was a region of streams and lakes. Today, the sands advance more than three feet a year on a front 2000 miles wide.

As man begins to appreciate the importance of his forest heritage, his first instinct is to preserve every standing tree intact, wherever it is found. But trees decay in time and in decaying provide breeding grounds for disease and pests. There are those who profess to see beauty in a decaying forest, in the fungus growths and tangles of dead tree trunks. But it is a perilous beauty. The clutter of dead wood on the forest floor bursts into flame easily when touched by lightning or a spark and fire is nature's way of removing decayed material. There is evidence that over the centuries devastating fires must have swept through the Douglas fir belt of Vancouver Island, cleansing the forest floor, but destroying most of the trees as well.









A forest choked with the refuse of the ages is mostly impenetrable to wildlife, to firefighters and to all but the hardest nature lovers. But the spruce budworm and the hemlock looper and other defoliators thrive in such conditions, spreading rapidly to adjacent healthy forests. In British Columbia it is estimated that disease and decay account for the loss of 680 million cubic feet of timber each year, the great bulk of it in mature and over-mature forests. In better managed stands disease can be kept under control because the conditions which harbour pests are eliminated.

What is needed in addition to reverence for the forest is the knowledge and the will to improve existing stands, and to expand their limits. In silviculture today there is the means to increase the world's forest cover far faster than it is used.

In the forests managed by MB, man works within the limits set by nature and observes her rules, but he also recognizes man's needs for the fruits of the forest and finds no conflict there. He improves the forests he harvests, replacing what he uses by planting new trees in place of the old, thus preserving the balance of nature.



Consolidated Balance Sheet

December 31 1969

Assets

CURRENT ASSETS:

	1969	1968
Cash	\$ 2,053,279	\$ 3,758,889
Short term investments and deposits	—	7,503,356
Trade and other accounts receivable	91,662,100	80,152,867
Amounts receivable from non-consolidated subsidiaries	5,291,638	2,908,071
Inventories (Note 2)	104,718,229	78,838,297
Prepaid expenses	2,624,349	1,432,531
	<u>206,349,595</u>	<u>174,594,011</u>

INVESTMENTS AND OTHER ASSETS:

Non-consolidated subsidiaries — Investments (Note 1)	46,567,599	44,489,797
Advances	1,123,614	1,104,489
Partly-owned companies (Note 3)	19,596,576	15,512,564
Investments at cost, having quoted market value of \$9,109,468 (1968 — \$16,357,720)	6,280,009	11,612,835
Other assets	4,876,864	3,113,221
	<u>78,444,662</u>	<u>75,832,906</u>

PROPERTY, PLANT AND EQUIPMENT (Notes 4 and 14):

Pulp and paper mills, sawmills, plywood mills, other buildings, machinery and equipment, including leased facilities, at cost	760,104,568	701,784,287
Less — Accumulated depreciation	<u>336,649,553</u>	<u>307,276,304</u>
	423,455,015	394,507,983
Construction in progress	14,147,448	—
Timber and land, at cost less accumulated depletion of \$68,392,795 (1968 — \$60,083,073)	93,540,121	80,746,608
Logging roads, at cost less amortization	<u>17,758,219</u>	<u>15,600,729</u>
	<u>548,900,803</u>	<u>490,855,320</u>

BOND AND DEBENTURE DISCOUNT AND FINANCING
EXPENSES, at cost less amortization

1,561,005	1,688,774
<u>\$835,256,065</u>	<u>\$742,971,011</u>

Certain 1968 figures have been reclassified for comparison with 1969.

	1969	1968
Liabilities		
CURRENT LIABILITIES:		
Bank indebtedness (Note 5)	\$ 41,132,339	\$ 14,194,361
Accounts payable and accrued liabilities	52,773,234	46,453,951
Income taxes payable	9,153,720	11,137,219
Current portion of long term debt (Note 7)	5,858,981	4,258,531
	<u>108,918,274</u>	<u>76,044,062</u>
LONG TERM DEBT:		
Bonds and debentures (Note 6)	240,246,641	222,996,449
Other secured liabilities	28,247,571	24,431,737
	<u>268,494,212</u>	<u>247,428,186</u>
DEFERRED INCOME TAXES (Note 8)	<u>69,391,723</u>	<u>63,443,009</u>
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	<u>10,572,278</u>	<u>311,001</u>
	<u>457,376,487</u>	<u>387,226,258</u>
SHARE CAPITAL:		
Redeemable non-cumulative 3% preference shares with a par value of \$1 each —		
Authorized — 2,749,066 shares		
Outstanding — 2,596,285 shares	2,596,285	2,596,285
Ordinary shares without nominal or par value (Note 9) —		
Authorized — 25,000,000 shares		
Outstanding — 20,876,165 shares (1968 — 20,856,255 shares)	<u>160,029,592</u>	<u>159,497,000</u>
	162,625,877	162,093,285
RETAINED EARNINGS — per statement attached	<u>215,253,701</u>	<u>193,651,468</u>
	377,879,578	355,744,753
COMMITMENTS (Note 10)		
CONTINGENT LIABILITIES (Note 11)		
APPROVED ON BEHALF OF THE BOARD:		
J. V. Clyne <i>Director</i>		
E. G. Shorter <i>Director</i>		
	<u>\$835,256,065</u>	<u>\$742,971,011</u>
Shareholders' Equity		

Consolidated Statement of Earnings

For the year ended December 31 1969

	1969	1968
Sales and other income:		
Sales of products and services (Note 12)	\$638,410,876	\$578,682,162
Other income (Note 13)	6,055,903	5,808,444
	<u>644,466,779</u>	<u>584,490,606</u>
Costs and expenses:		
Cost of sales and services (Note 13)	502,054,833	458,769,433
Marketing, advertising and promotion expenses . . .	14,038,256	13,585,101
General and administrative expenses (Note 13) . . .	23,619,402	21,320,182
Interest on long term debt	12,211,960	11,857,259
Bank and other interest	1,453,020	1,059,808
	<u>553,377,471</u>	<u>506,591,783</u>
Earnings before income taxes and minority interests . .	<u>91,089,308</u>	<u>77,898,823</u>
Income taxes:		
Current	41,941,680	36,520,870
Deferred (Note 8)	5,948,714	3,508,752
	<u>47,890,394</u>	<u>40,029,622</u>
Earnings before minority interests	43,198,914	37,869,201
<i>Deduct—</i>		
Minority interests in earnings (share of loss in 1968) of consolidated subsidiaries	648,193	(930,246)
Net earnings for the year	<u>\$ 42,550,721</u>	<u>\$ 38,799,447</u>
Net earnings per ordinary share	<u>\$ 2.04</u>	<u>\$ 1.86</u>
<i>Certain 1968 figures have been reclassified for comparison with 1969.</i>		

Consolidated Statement of Retained Earnings

For the year ended December 31 1969

	1969	1968
Balance at beginning of year	\$193,651,468	\$175,786,165
Net earnings for the year — per statement attached . . .	42,550,721	38,799,447
	<u>236,202,189</u>	<u>214,585,612</u>
Dividends:		
On ordinary shares — \$1.00 per share in both years . .	20,870,599	20,856,255
On preference shares	77,889	77,889
	<u>20,948,488</u>	<u>20,934,144</u>
Balance at end of year	<u>\$215,253,701</u>	<u>\$193,651,468</u>

Consolidated Statement of Source and Application of Working Capital

For the year ended December 31 1969

	1969	1968
Source of working capital:		
Operations —		
Net earnings	\$ 42,550,721	\$ 38,799,447
Non-cash charges (credits) —		
Depreciation, depletion and amortization of logging roads	47,046,573	38,886,342
Deferred income taxes	5,948,714	3,508,752
Minority interests in earnings of consolidated subsidiaries	648,193	(930,246)
Amortization of bond and debenture discount and financing expenses	127,769	123,890
	<u>96,321,970</u>	<u>80,388,185</u>
Equity provided by minority interests (net)	9,613,084	924,471
Exercise of stock options	532,592	—
Proceeds of issue of bonds and debentures	—	7,367,281
Refund of special tax	—	2,332,392
Other items (net)	2,190,827	2,577,836
	<u>108,658,473</u>	<u>93,590,165</u>
Application of working capital:		
Net additions to property, plant and equipment	105,092,056	77,609,013
Less —		
Financed from funds allocated for capital purposes and by long term debt	28,157,190	31,454,586
	<u>76,934,866</u>	<u>46,154,427</u>
Dividends	20,948,488	20,934,144
Investments in and advances to non-consolidated subsidiaries	2,096,927	1,053,312
Investments in and advances to partly-owned companies	4,084,012	12,524,934
Payments of, and current provision for, bonds and debentures	5,712,808	4,640,218
	<u>109,777,101</u>	<u>85,307,035</u>
Increase (decrease) in working capital	(1,118,628)	8,283,130
Working capital at beginning of year	98,549,949	90,266,819
Working capital at end of year	<u>\$ 97,431,321</u>	<u>\$ 98,549,949</u>

Certain 1968 figures have been reclassified for comparison with 1969.

Auditors' Report

TO THE SHAREHOLDERS OF MacMILLAN BLOEDEL LIMITED:

We have examined the consolidated balance sheet of MacMillan Bloedel Limited as at December 31 1969 and the consolidated statements of earnings, retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31 1969, and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 6 1970
Vancouver, B.C.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

Notes to Consolidated Financial Statements

December 31 1969

1. PRINCIPLES OF CONSOLIDATION:

It is the company's practice to include in its consolidated financial statements the accounts of all subsidiaries other than overseas subsidiaries operating in the United Kingdom and elsewhere. The equity of MacMillan Bloedel Limited in the net earnings for the year of the non-consolidated subsidiaries is included in the accompanying consolidated statement of earnings. The investments in these subsidiaries are carried on the consolidated balance sheet at a cost of \$38,347,444 plus the company's share of undistributed net earnings since acquisition, \$8,220,155. While the carrying value of the investments is in excess of the related equity in the net assets at book value, it is not considered that any provision for amortization is required.

The consolidated financial statements as at December 31 1969 include for the first time the company's majority interest in MacMillan Rothesay Limited, a company incorporated during the year to acquire the principal assets and assume the long term debt of Rothesay Paper Corporation in New Brunswick. In accordance with generally accepted principles of consolidation, the consolidated financial statements as at December 31 1969 include the total assets and liabilities of the subsidiary with appropriate recognition of the minority interest. As the acquisition was made towards the end of the financial year the effect on the year's operations has been minimal.

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at the rates of exchange in effect as at the balance sheet date, except for Sterling balances which have been translated at rates related to forward exchange contracts; other assets (and related depreciation and amortization) and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred; and items entering into net earnings (other than inventories, depreciation and amortization) at the average rates for the year. The net balance arising from the translation of foreign currencies, which is not material, has been included in net earnings.

2. INVENTORIES:

	December 31	
	1969	1968
Logs, pulp chips and other raw materials.....	\$ 39,677,801	\$27,470,434
Lumber, plywood and other wood products.....	34,565,751	26,267,607
Pulp and paper products.....	13,945,117	11,280,493
Packaging products.....	1,984,619	1,750,850
Operating and maintenance supplies.....	14,544,941	12,068,913
	<u>\$104,718,229</u>	<u>\$78,838,297</u>

Logs, pulp chips and other raw materials and operating and maintenance supplies were valued at the lower of cost and replacement cost and manufactured products at the lower of cost and net realizable value.

3. PARTLY-OWNED COMPANIES:

Particulars of the investments (carried at cost) in and advances to partly-owned companies as at December 31 1969 and 1968 were as follows:

	December 31	
	1969	1968
Shares of Koninklijke Nederlandsche Papierfabriek N.V. — 36% interest.....	\$15,214,506	\$12,198,674
Shares and advances to Celupal, S.A. — 37½% interest (1968 — 30%) —		
Shares.....	1,260,415	678,228
Advances.....	2,990,802	2,564,809
Other investments and advances (representing 33% to 50% interests).....	130,853	70,853
	<u>\$19,596,576</u>	<u>\$15,512,564</u>

4. PROPERTY, PLANT AND EQUIPMENT:

	Cost	Accumulated depreciation	Net book value
December 31 1969:			
Pulp and paper mills.....	\$549,406,482	\$234,062,160	\$315,344,322
Sawmills, plywood mills and other wood products plants.....	95,464,184	47,721,343	47,742,841
Logging buildings and equipment.....	62,644,610	37,409,120	25,235,490
Packaging plants.....	18,759,276	9,569,132	9,190,144
Other buildings and equipment.....	33,830,016	7,887,798	25,942,218
	<u>\$760,104,568</u>	<u>\$336,649,553</u>	<u>\$423,455,015</u>
December 31 1968:			
Pulp and paper mills.....	\$510,795,675	\$213,728,728	\$297,066,947
Sawmills, plywood mills and other wood products plants.....	87,051,282	44,632,311	42,418,971
Logging buildings and equipment.....	54,194,710	33,501,795	20,692,915
Packaging plants.....	17,519,329	8,633,108	8,886,221
Other buildings and equipment.....	32,223,291	6,780,362	25,442,929
	<u>\$701,784,287</u>	<u>\$307,276,304</u>	<u>\$394,507,983</u>

The company's plant facilities in Alabama and its new head office building are held under long term leases containing provisions which indicate that the assets should be accounted for on a basis of ownership. Accordingly, the cost of these leased assets, aggregating \$86,643,998 at December 31 1969 (\$86,250,267 at December 31 1968) and related depreciation and long term debt are reflected in the accompanying financial statements.

The company is carrying out extensive modifications to its No. 6 paper machine and related equipment at Powell River, B.C. and is constructing a second paper machine and other facilities at the newly acquired paper mill at Rothesay, New Brunswick. Total capital costs of these projects are estimated at \$10,500,000 and \$35,200,000 respectively. Capital costs of \$9,508,808 and \$4,638,640 on the two projects have been incurred to December 31 1969 and are shown as construction in progress in the accompanying consolidated balance sheet.

	December 31	
	1969	1968
5. BANK INDEBTEDNESS:		
Bank loans —		
Secured	\$ 2,714,000	\$ 2,890,211
Unsecured	33,071,703	11,304,150
	<u>35,785,703</u>	<u>14,194,361</u>
Other indebtedness	5,346,636	—
	<u>\$41,132,339</u>	<u>\$14,194,361</u>
6. BONDS AND DEBENTURES:		
MacMillan Bloedel Limited —		
4.95% sinking fund debentures Series "A" maturing October 1 1990:		
\$42,000,000 U.S. (Canadian equivalent \$45,045,000) — at amount realized . . .	\$ 45,120,383	\$ 45,120,383
5½% ten-year term debentures Series "B" maturing January 3 1976	50,000,000	50,000,000
6½% sinking fund debentures Series "C" maturing July 15 1992:		
\$30,000,000 U.S. (Canadian equivalent \$32,175,000) — at amount realized . . .	32,329,500	32,329,500
	<u>127,449,883</u>	<u>127,449,883</u>
MacMillan Bloedel Industries Limited —		
Sinking fund debentures:		
5½% twenty-year debentures Series "A" maturing May 15 1978	9,579,000	10,374,000
4¼% twenty-year debentures Series "B" maturing May 15 1978:		
\$4,575,000 U.S. (Canadian equivalent \$4,906,687) — at amount realized . . .	4,402,008	5,032,241
	<u>13,981,008</u>	<u>15,406,241</u>
Burnaby Paperboard Ltd. —		
First mortgage and collateral trust bonds:		
1955 Series —		
4½% sinking fund bonds maturing September 1 1975	3,531,500	3,765,000
1958 Series —		
5¼% sinking fund bonds maturing May 15 1978	1,753,000	1,847,000
	<u>5,284,500</u>	<u>5,612,000</u>
Kingsway Lumber Co. Limited —		
6¼% sinking fund debentures:		
Series "A" maturing December 15 1982	806,500	862,500
Series "B" maturing February 1 1985	713,000	783,000
	<u>1,519,500</u>	<u>1,645,500</u>
MacMillan Bloedel Products Inc.* —		
3.95% to 4.10% industrial development revenue bonds,		
maturing June 1 1970 to 1975:		
\$2,740,000 U.S. (Canadian equivalent \$2,938,650) — at amount realized . . .	2,945,500	3,440,000
4¾% sinking fund industrial development revenue bonds, maturing June 1 1988:		
\$10,800,000 U.S. (Canadian equivalent \$11,583,000) — at amount realized . .	11,610,000	11,610,000
	<u>14,555,500</u>	<u>15,050,000</u>
MacMillan Bloedel United Inc.* —		
3.95% to 4.10% industrial development revenue bonds,		
maturing June 1 1970 to 1975:		
\$10,955,000 U.S. (Canadian equivalent \$11,749,237) — at amount realized . .	11,776,625	13,760,000
4¾% sinking fund industrial development revenue bonds, maturing June 1 1988:		
\$43,200,000 U.S. (Canadian equivalent \$46,332,000) — at amount realized . .	46,440,000	46,440,000
	<u>58,216,625</u>	<u>60,200,000</u>
MacMillan Rothesay Limited —		
6% first mortgage and collateral sinking fund bonds, Series "A",		
maturing March 1 1985:		
\$13,340,000 U.S. (Canadian equivalent \$14,307,150) — at amount realized . .	14,340,500	—
6¾% general mortgage sinking fund bonds, Series "A", maturing October 1 1985 . .	8,600,000	—
7½% debenture certificate, due December 31 1979	22,500	—
	<u>22,963,000</u>	<u>—</u>
MacMillan Bloedel (Manitoba) Limited —		
4% debentures maturing July 1 1970	160,700	160,700
	<u>244,130,716</u>	<u>225,524,324</u>
Less —		
Payments due within one year (Note 7)	3,884,075	2,527,875
	<u>\$240,246,641</u>	<u>\$222,996,449</u>

*These industrial development revenue bonds are direct obligations of The Industrial Development Board of the Town of Camden, Alabama (see Note 4).

Notes to Consolidated Financial Statements *(continued)*

December 31 1969

7. PAYMENTS ON LONG TERM DEBT:

Payments on long term debt required for each of the five years after December 31 1969 are as follows:

	Bonds and debentures	Other secured liabilities	Total
1970.....	\$ 3,884,075*	\$1,974,906	\$ 5,858,981
1971.....	7,169,395*	2,211,283	9,380,678
1972.....	8,351,762*	2,030,890	10,382,652
1973.....	10,105,167	2,120,691	12,225,858
1974.....	10,268,041	4,003,495	14,271,536

*Reduced by purchase and cancellation of bonds and debentures up to December 31 1969.

8. DEFERRED INCOME TAXES:

It is the company's practice to record income taxes on the tax allocation basis recommended by The Canadian Institute of Chartered Accountants, wherever this basis is appropriate. In the case of accumulated losses of certain subsidiaries, aggregating \$4,317,863 to December 31 1969, as the recommended requirements were not present, this basis of accounting for income taxes was not followed; accordingly, these losses are available to reduce income tax provisions of future years.

9. STOCK OPTIONS:

Under the company's stock option plan, options for ordinary shares may be granted to key employees, exercisable by dates fixed by the Board, at share prices equal to at least 90% of the closing price on the last business day before the options were granted. During the year options for 19,910 shares were exercised and the shares issued at \$26.75 per share for a total cash consideration of \$532,592; and further options for 31,500 shares were granted at \$29.70 per share. As at December 31 1969 options were outstanding as follows:

Exercisable on or before October 6 1970 at \$26.75 per share.....	73,090
Exercisable on or before November 6 1974 at \$29.70 per share.....	31,500
	<u>104,590</u>

10. COMMITMENTS:

In addition to commitments in respect of the construction in progress referred to in Note 4, the company is committed in respect of the following:

(a) An annual rental of \$145,239 (excluding taxes, insurance and other occupancy expenses payable by the company) up to 1988 under a lease of its former head office building (now sublet to other tenants).

(b) The charter by one of the company's subsidiaries of certain vessels under agreements for varying periods up to May 1977 at rentals aggregating \$24,265,000 for the periods of charter. The rentals due under these agreements are as follows:

1970 to 1975 (\$3,676,000 annually).....	\$22,056,000
1976.....	1,702,000
1977.....	507,000
	<u>\$24,265,000</u>

(c) The commencement of construction on or before January 1 1971 of a mill for manufacturing either pulp or paper at Whitecourt, Alberta, in order to preserve the rights to timber leases acquired at a cost of \$1,725,500.

(d) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2029); payments of approximately \$1,750,000 are required in each of the next five years.

(e) Agreements with certain of the company's executive officers (including some now retired), which call for pension payments, not funded or otherwise provided for, to be made under certain conditions following retirement.

11. CONTINGENT LIABILITIES:

The company and its subsidiaries were contingently liable as at December 31 1969 in respect of bills discounted and bank guarantees in the amounts of \$6,180,670 and \$1,543,500 respectively.

12. SALES OF PRODUCTS AND SERVICES:

Sales, as in prior years, include the sales of products for account of, or purchased from, other manufacturers on which the margin of gross profit realized by the company is substantially less than that realized on the sale of its own manufactured products.

13. SUPPLEMENTARY EARNINGS STATEMENT INFORMATION:

(a) Other income for the years ended December 31 1969 and 1968 comprised the following:

	December 31	
	1969	1968
Equity in net earnings of non-consolidated subsidiaries (Note 1).....	\$ 2,895,397	\$ 1,978,868
Income from other investments.....	2,215,816	1,887,399
Profit on disposal of investments and property, plant and equipment.....	944,690	1,942,177
	<u>\$ 6,055,903</u>	<u>\$ 5,808,444</u>

(b) Cost of sales and services included the following for the years ended December 31 1969 and 1968:

	December 31	
	1969	1968
Depreciation.....	\$32,843,569	\$28,390,560
Depletion.....	7,918,107	5,398,421
Amortization of logging roads.....	6,284,897	5,097,361
	<u>\$47,046,573</u>	<u>\$38,886,342</u>

In both years:

(i) depreciation has been computed on a straight-line basis on original cost at rates varying from 2½% on buildings to 15% on logging equipment,

(ii) depletion has been provided on a timber cut basis, and

(iii) amortization of logging roads has been determined on a basis related to log production.

(c) General and administrative expenses included remuneration paid to the directors, including remuneration paid to certain directors in their capacities as senior officers of the company, aggregating \$586,984 for the year ended December 31 1969 (1968 — \$600,175).

14. SUBSEQUENT EVENT:

Subject to certain conditions being fulfilled, the company has agreed to sell, as of January 1 1970, certain assets including two cylinder board machines and related buildings and equipment situated at its Burnaby Paperboard Division for approximately \$9,250,000.

Logging operations, plants and distribution centres

LOGGING OPERATIONS, B.C.

Cameron
Chemainus
Eve River
Franklin River
Iron River
Jervis Inlet
Kelsey Bay
Kennedy Lake
Kitimat
Knight Inlet
Menzies Bay
Misery Creek
Northwest Bay
Port Hardy
Queen Charlotte
Shawnigan
Sproat Lake
Squamish
Stillwater
Turnour Island
Wilson Creek

CEDAR POLE YARD
New Westminster, B.C.

LUMBER
Chemainus, B.C.
Harmac, B.C.
New Westminster, B.C.
Pine Hill, Alabama
Port Alberni, B.C.
Powell River, B.C.
Vancouver, B.C.

PLYWOOD

Pine Hill, Alabama
Port Alberni, B.C.
Vancouver, B.C.

WOOD PRODUCT SPECIALTIES

Hudson Bay, Sask.
Aspenite Panelboard
Port Alberni, B.C.
Shingles
Vancouver, B.C.
Particleboard
Pres-to-logs
Shingles
Specialty Boards

NEWSPRINT

Port Alberni, B.C.
Powell River, B.C.
Saint John, N.B.

PULP

Harmac, B.C.
Bleached Sulphate
Port Alberni, B.C.
Unbleached Sulphate
Powell River, B.C.
Semi-bleached Sulphate

SPECIALTY PAPER PRODUCTS

Annacis Island,
New Westminster, B.C.
Fine Papers
Pine Hill, Alabama
Linerboard
Port Alberni, B.C.
Kraft Corrugating Medium
Kraft Paper
Linerboard

CORRUGATED CONTAINER PLANTS

CANADA
Winnipeg, Man.
Regina, Sask.
Edmonton, Alta.
Calgary, Alta.
New Westminster, B.C.
UNITED KINGDOM
Hatfield, Herts.
Nelson, Lancs.
Southall, Middlesex
West Auckland, Co. Durham
Weston-super-Mare, Somerset
UNITED STATES
Baltimore, Md.
Jersey City, N.J.

OTHER CONTAINER PLANTS

Burnaby, B.C.
Folding Boxes
Rigid Boxes
Set-up Boxes
Milk Cartons
Paper Bags
Notion and Millinery Bags
Wrapping Papers

SALES OFFICES AND DISTRIBUTION CENTRES

Wood Products

CANADA

Eastern

Truro, N.S.
Drummondville, Que.
Montreal, Que.
Quebec City, Que.
Rimouski, Que.
Belleville, Ont.
Brantford, Ont.
Chatham, Ont.
Fonthill, Ont.
Kitchener, Ont.
London, Ont.
Orillia, Ont.
Ottawa, Ont.
Owen Sound, Ont.
Sudbury, Ont.
Timmins, Ont.
Toronto, Ont.
Windsor, Ont.

Western

Winnipeg, Man.
Regina, Sask.
Saskatoon, Sask.
Edmonton, Alta.
Calgary, Alta.
Lethbridge, Alta.
Vancouver, B.C.

UNITED STATES

New York, N.Y.
Birmingham, Ala.

Blanchard Lumber Company

Walpole, Mass.
Rensselaer, N.Y.
Wayne, N.J.
Camden, N.J.
Baltimore, Md.
Port Everglades, Fla.
Jacksonville, Fla.
Portland, Ore.
Warwick, R.I.
West Hartford, Conn.

Principal subsidiary companies

Alberni Pulp & Paper Ltd.
Blanchard Lumber Company
Burnaby Paperboard Ltd.
Canadian Transport Company Limited
Canadian Transport (Terminals) Limited
Kingcome Navigation Company Limited
Kingsway Lumber Co. Limited
MacMillan Bloedel (Alabama) Inc.
MacMillan Bloedel (Alberni) Limited
MacMillan Bloedel Building Limited
MacMillan Bloedel Building Materials (B.C.) Limited
MacMillan Bloedel Building Materials Limited
MacMillan Bloedel Containers Limited
MacMillan Bloedel Industries Limited
MacMillan Bloedel Meyer Limited
MacMillan Bloedel Meyer (Terminals) Limited
MacMillan Bloedel (New York) Inc.
MacMillan Bloedel Packaging Limited
MacMillan Bloedel Products Inc.
MacMillan Bloedel Pty. Limited
MacMillan Bloedel Pulp and Paper Sales Limited
MacMillan Bloedel Research Limited
MacMillan Bloedel Sales Inc.
MacMillan Bloedel (Saskatchewan) Limited
MacMillan Bloedel United Inc.
MacMillan Jardine Limited
MacMillan Rothesay Limited

Directors

PRENTICE BLOEDEL *Bainbridge Island, Washington, U.S.A.*
Retired—former Vice-Chairman, MacMillan & Boedel Limited

R. W. BONNER Q.C. *Vancouver, British Columbia*
Senior Vice-President, Administration,
MacMillan Bloedel Limited

ANSON BROOKS *Seattle, Washington, U.S.A.*
President, Powell River-Alberni Sales Corporation

F. H. BROWN *Vancouver, British Columbia*
Chairman, The White Pass and Yukon Corporation Limited

J. M. BUCHANAN *Vancouver, British Columbia*
Retired—Chancellor Emeritus, University of British Columbia

A. B. CHRISTOPHER *Vancouver, British Columbia*
Chairman of the Board, Nelsons Laundries Limited

THE HONOURABLE J. V. CLYNE *Vancouver, British Columbia*
Chairman of the Board and Chief Executive Officer,
MacMillan Bloedel Limited

MARK COLLINS *Vancouver, British Columbia*
President, Smith Lithograph Company Limited

N. R. CRUMP *Montreal, Quebec*
Chairman of the Company, Canadian Pacific

GORDON FARRELL *Vancouver, British Columbia*
Chairman, Ocean Cement & Supplies Ltd.

L. G. HARRIS *Vancouver, British Columbia*
Executive Vice-President, MacMillan Bloedel Limited

J. O. HEMMINGSEN *Vancouver, British Columbia*
Executive Vice-President, MacMillan Bloedel Limited

J. N. HYLAND *Vancouver, British Columbia*
Retired—former Chairman, British Columbia Packers Ltd.

JOHN LECKY *Vancouver, British Columbia*
President, Smith, Davidson & Lecky Limited

G. A. L. M. LHOEST *Maastricht, Holland*
Director, Koninklijke Nederlandsche Papierfabriek N.V.

H. R. MacMILLAN *Vancouver, British Columbia*
Retired—former Chairman, MacMillan & Boedel Limited

H. T. MITCHELL *Vancouver, British Columbia*
President, Mitchell Press Limited

J. E. RICHARDSON *Vancouver, British Columbia*
President and Chief Executive Officer,
British Columbia Telephone Company

E. G. SHORTER *Vancouver, British Columbia*
Vice-Chairman, MacMillan Bloedel Limited

G. T. SOUTHAM *Vancouver, British Columbia*
President, Pioneer Envelopes Limited

C. A. SPECHT *Chicago, Illinois, U.S.A.*
President and Chief Executive Officer,
Consolidated Packaging Corp.

W. J. VANDUSEN *Vancouver, British Columbia*
Retired—former Vice-Chairman, MacMillan & Bloedel Limited

FREDERICK WILSON *Spokane, Washington, U.S.A.*
Investment Counsel

C. B. WRIGHT *Seattle, Washington, U.S.A.*
President, Pentagram Corporation

Executive Committee

THE HONOURABLE J. V. CLYNE
(Chairman)

PRENTICE BLOEDEL

R. W. BONNER Q.C.

F. H. BROWN

MARK COLLINS

L. G. HARRIS

J. O. HEMMINGSEN

J. N. HYLAND

E. G. SHORTER

C. A. SPECHT

W. J. VANDUSEN

Officers

THE HONOURABLE J. V. CLYNE
Chairman of the Board and Chief Executive Officer

E. G. SHORTER *Vice-Chairman*

L. G. HARRIS *Executive Vice-President*

J. O. HEMMINGSEN *Executive Vice-President*

R. W. BONNER Q.C. *Senior Vice-President,
Administration*

H. R. CHISHOLM *Group Vice-President, Logging*

J. R. FORREST *Group Vice-President, Wood Products*

D. W. TIMMIS *Group Vice-President, Pulp and Paper*

H. V. TOWNSEND *Group Vice-President, Packaging*

G. B. CURRIE *Vice-President, Finance*

P. M. DOWNES *Vice-President,
Corporate Communications*

Dr. L. A. COX *Director of Research*

R. M. BIBBS *Vice-President, Industrial Relations*

F. H. BRITTON Q.C. *Secretary and General Counsel*

R. L. GILLEN *Vice-President Marketing,
Pulp and Paper Group*

A. C. McGOUGAN *Vice-President Pulp and
Paper Sales, Pulp and Paper Group*

J. S. ROGERS *Vice-President Manufacturing,
Pulp and Paper Group*

J. H. LAWSON *Vice-President Manufacturing,
Wood Products Group*

B. P. PAGE *Vice-President Marketing,
Wood Products Group*

C. G. CHAMBERS *Treasurer*

T. P. BOYLE *Corporate Controller*

A. P. MacBEAN *Chief Forester*

E. N. WALTON *Chief Engineer*

I. S. BRAND *Director, Far Eastern Development*

E. G. LEGG *Assistant Treasurer*

R. D. MacFAYDEN *Assistant Secretary*

J. G. C. CUNNINGHAM *Assistant Secretary*

Registrars and Transfer Agents

THE ROYAL TRUST COMPANY
Vancouver

THE CANADA TRUST COMPANY
Calgary, Regina, Winnipeg, Toronto, Montreal

THE CHASE MANHATTAN BANK
New York

Auditors

PRICE WATERHOUSE & CO.
Vancouver



AR07



This huge log stacker, the first of its kind purchased by the Company, is now working at the dry-land sorting operation of Eve River Logging Division on Vancouver Island.

ITEM OF INTEREST

Work is about to begin on a \$1 million pollution control project at Alberni Pulp and Paper Division where two secondary electrostatic precipitators will be installed. The precipitators will be attached to the two recovery boilers in the Division making a further reduction in the emission of saltcake into the atmosphere. Since the two boilers are already equipped with precipitators, the new equipment represents secondary treatment and will meet the strictest pollution control standards in North America. The work is part of the Company's programme to improve the quality of the environment in communities where it operates. Another major pollution control project at Port Alberni, costing some \$3½ million, was announced earlier this year. It involves primary and secondary purifying treatment of water discharged by the pulp and paper mill. Its purpose is to preserve from harm the fish proceeding up the Alberni Canal to their spawning grounds in the Somass River.

The Company's pollution abatement projects have placed it in the lead of the forest products industry in Canada in seeking ways to solve what is a serious social and industrial problem. It is estimated that MB's expenditures for pollution abatement in British Columbia will have reached a total of \$15 million by the end of next year. It is the Company's policy to employ new pollution control techniques promptly as they are developed by research.



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**MacMillan
Bloedel Limited**
and Subsidiary Companies

**Report to the Shareholders
for the Six Months
Ended June 30, 1969**

CONSOLIDATED STATEMENT OF EARNINGS

SIX MONTHS ENDED JUNE 30 (in millions of dollars)
1969 1968 1967 1966

Sales and Other Income				
Sales of Products and Services	\$326.7	\$285.8	\$272.6	\$234.4
Other Income	3.2	2.5	3.4	1.8
	<u>\$329.9</u>	<u>\$288.3</u>	<u>\$276.0</u>	<u>\$236.2</u>
Earnings before deducting Undernoted Items	\$ 80.5	\$ 65.3	\$ 62.7	\$ 60.4
Depreciation, Depletion and Amortization	21.5	17.6	14.1	13.2
Interest on Borrowed Money	6.5	6.5	5.2	2.2
	<u>28.0</u>	<u>24.1</u>	<u>19.3</u>	<u>15.4</u>
Earnings before deducting Income Taxes	<u>52.5</u>	<u>41.2</u>	<u>43.4</u>	<u>45.0</u>
Income Taxes				
Current	28.1	18.8	13.5	13.3
Deferred	(.6)	3.6	9.0	9.4
	<u>27.5</u>	<u>22.4</u>	<u>22.5</u>	<u>22.7</u>
Net Earnings for the Six Months	<u>\$ 25.0</u>	<u>\$ 18.8</u>	<u>\$ 20.9</u>	<u>\$ 22.3</u>
Earned per Share (dollars)	<u>\$ 1.20</u>	<u>\$.90</u>	<u>\$ 1.00</u>	<u>\$ 1.07</u>

NOTE: Subject to audit.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

SIX MONTHS ENDED JUNE 30 (in millions of dollars)
1969 1968 1967 1966

Source of Working Capital				
Net Earnings	\$ 25.0	\$ 18.8	\$ 20.9	\$ 22.3
Non-cash Charges				
Depreciation, Depletion and Amortization	21.5	17.6	14.1	13.2
Deferred Income Taxes	(.6)	3.6	9.0	9.4
Proceeds from Debentures and Other Long-term Debt7	7.4	—	38.7
Issue of Shares5	—	—	—
Realization of Funds allocated for Capital Purposes*	4.6	19.6	11.7	.6
	<u>51.7</u>	<u>67.0</u>	<u>55.7</u>	<u>84.2</u>
Application of Working Capital				
Net Additions to Property, Plant and Equipment	32.4	31.5	44.5	33.1
Investments and Other Assets	6.3	11.8	2.9	4.3
Cash Dividends Paid	10.4	10.4	12.5	10.4
Payments of, and Current Provision for, Long-term Debt	4.3	2.6	2.2	2.7
Sundry6	4.3	1.6	—
	<u>54.0</u>	<u>60.6</u>	<u>63.7</u>	<u>50.5</u>
Increase (Decrease) in Working Capital	(2.3)	6.4	(8.0)	33.7
Working Capital at Beginning of Period	99.6	90.3	90.1	51.6
Working Capital at End of Period	<u>\$ 97.3</u>	<u>\$ 96.7</u>	<u>\$ 82.1</u>	<u>\$ 85.3</u>

* Of this \$8, \$18.5 and \$11.2 million respectively in the years 1969, 1968 and 1967 represent funds released by the trustee for the bondholders of the Alabama project.

NOTE: Subject to audit.

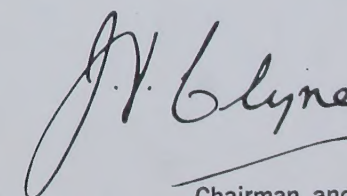
TO THE SHAREHOLDERS

Sales and other income for the six months ended June 30, 1969 amounted to \$329,880,086 as compared to \$288,288,102 for the corresponding period last year, an increase of 14%. Net earnings for the first six months of the year have increased by about 33% to \$25,026,012 as compared to \$18,772,159 for the first six months of last year.

The increase in sales revenue is due to higher volumes in shipments of pulp, newsprint and linerboard because of the expansion of productive capacity at Powell River, B.C., and Pine Hill, Alabama, as well as higher prices for nearly all major products of the Company, particularly lumber and shingles. The increase in net earnings is likewise due to higher volumes and prices, offset in part by higher costs in every segment of the business. Logging costs were especially high and production low in the first six months due to severe winter weather at the beginning of the year and a serious fire hazard in May and part of June which required curtailment of operations.

A significant factor in the improved earnings was the rise in prices for lumber in the United States where demand caused substantial increases which reached their peak about the end of April 1969. This was due in part to an overestimate by builders in housing starts and also to a strike of longshoremen on the U.S. Atlantic Seaboard which caused wholesalers to duplicate their water-borne orders by rail shipments. At the end of the strike there was considerable over-supply coincident with some slackening of consumption which produced a sudden price drop as well as a large unsold inventory all of which resulted in very uncertain market conditions. Inventories in the hands of wholesalers, in the face of a reduced consumption, will take some time to be absorbed by the market and the present conditions of uncertainty are expected to continue for several months.

Pulp and paper demand is slowly improving, bringing with it improved prices. The operations of the Packaging Group are proceeding very satisfactorily both on this continent and in the United Kingdom.



Vancouver, Canada
July 21, 1969

Chairman and
Chief Executive Officer

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**MacMillan
Bloedel Limited**

and Subsidiary Companies

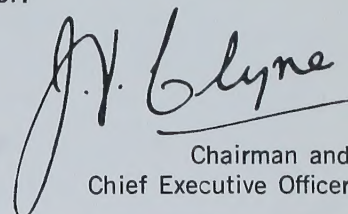
**Interim Report
to the Shareholders for
the Year Ended
December 31, 1969**

INTERIM REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED DECEMBER 31, 1969

In accordance with past practice, the shareholders are hereby furnished with a short interim report of the financial results of the Company's operations for the year ended December 31, 1969 immediately upon such results having been reported today to the Board of Directors. Complete financial statements and the auditors' report thereon will be mailed in due course to all shareholders together with notice of the annual meeting which will be held on Tuesday, April 28, 1970.

Sales and other income reached an all time high of \$644,466,779 in 1969, as contrasted to \$584,490,606 in 1968, an increase of about 10%. Net earnings likewise increased by 9.7% from \$38,799,447 in 1968 to \$42,550,721 in 1969, which amount can be compared to the previous peak year's earnings of \$42,460,618 in 1966. Nevertheless, they are disappointing, having regard to the very substantial capital investment made between 1966 and 1969 and in the light of the performance at mid-year when net earnings were approximately 33% ahead

of the corresponding half-year in 1968. The sharp reduction in lumber prices in the late spring contributed to the decline in the second half but if it had not been for a frustrating strike of longshoremen which prevented water shipments for six weeks from British Columbia in the latter part of the year the Company's performance would have been considerably improved. Such strikes in vital areas such as shipping result in little significant gain to employees, create losses to the individual employers and their customers, and also do severe damage to the economy as a whole. Were it not for profit improvement stemming from pulp and paper operations, particularly pulp, and from packaging, the impact would have been even greater.


Chairman and
Chief Executive Officer

Vancouver, Canada
February 25, 1970

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31

(in millions of dollars)

1969

1968

Sales and Other Income		
Sales of Products and Services	\$ 638.4	\$ 578.7
Other Income	6.1	5.8
	<u>\$ 644.5</u>	<u>\$ 584.5</u>
Earnings before deducting Undernoted Items	\$ 151.8	\$ 129.7
Depreciation, Depletion and Amortization	47.0	38.9
Interest on Borrowed Money	13.7	12.9
	<u>60.7</u>	<u>51.8</u>
Earnings before deducting Income Taxes and Minority Interests	91.1	77.9
Income Taxes:		
Current	41.9	36.5
Deferred	6.0	3.5
	<u>47.9</u>	<u>40.0</u>
Earnings before deducting Minority Interests	43.2	37.9
Minority Interests6	(.9)
Net Earnings for the Year	<u>\$ 42.6</u>	<u>\$ 38.8</u>
Earned per Share (dollars)	<u>\$ 2.04</u>	<u>\$ 1.86</u>

NOTE: Subject to audit.